

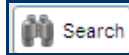
Rural Housing Credit Policy Manual

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The Credit Policy Manual makes reference to “The Lender”. The Lender shall at all times refer to the institution or business which is to ultimately fund or purchase the mortgage loan. Any outside business or entity involved, at any time, in the process of the originating, processing, underwriting, or closing of the mortgage must comply with The Lender’s credit policy as set forth in this manual.

Any discrepancies between this Credit Policy Manual and published Product Profiles will defer to whichever has the most recent revision date. This manual was last revised REVISION 6.12.2009.

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INTRODUCTION 2

INTRODUCTION.....	2
UNDERWRITING PHILOSOPHY	2
IMPLEMENTING CREDIT POLICY.....	2
REGULATORY ISSUES.....	3
GUIDELINE CHANGES	3
PRODUCT AVAILABILITY.....	3

CHAPTER 2 – RURAL HOUSING..... 4

SECTION 200.00 – RURAL HOUSING	4
200.00 – Introduction.....	4
200.01 – Loan Guarantee Process.....	5
200.02 – Guaranteed Rural Housing Loans.....	5
200.03 – Highlights of the USDA Guaranteed Rural Housing Loan Program.....	7
200.04 – Eligible Properties.....	8
200.05 – Retaining Present Home as Rental Property	9
200.06 – Refinance Transactions.....	10
200.07 – Determining Income	14
200.08 – Documenting Income – Other than Self-Employed.....	17
200.09 – Calculating Self-Employed Income	19
200.10 – Credit Reports	20
200.11 – Utilizing Credit Scores	22
200.12 – Debt Ratio Waivers.....	23
200.13 – Payment Shock	24
200.14 – Seller Concessions.....	24
200.15 – Deferred Student Loans	24
200.16 – Gift Funds	25
200.17 – Quick Reference Chart	25
200.18 – GRH Refinancing Chart.....	25
200.19 – Appraisal Requirements	25
200.20 – Flood Insurance.....	29
200.21 – Condominium Guidelines	29
200.22 – Escrows	31

INTRODUCTION

INTRODUCTION

The Credit Policy Manual was developed to provide associates with a clear understanding of the elements involved in evaluating the credit worthiness and financial capacity of an applicant, and the adequacy of the proposed collateral.

Agency guidelines have been summarized and incorporated into the Credit Policy Manual by topic.

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UNDERWRITING PHILOSOPHY

The Lender is engaged in the origination of investment quality loans. The Credit Policy Manual is to provide direction and consistency in determining the credit decision. The Lender’s intent is to describe the general underwriting philosophy of the company on mortgage loans, however is not all inclusive of all situations that may arise from loan to loan. In discussing this general approach we have presented the minimum guidelines considered necessary for prudent mortgage compliance underwriting, the essential requirement being that the terms of the loan be related to the probability of the borrower’s repayment and to the value and marketability of the mortgaged property.

The Lender believes that there is no singular characteristic within a loan file that indicates the quality of a loan. This concept is incorporated throughout these guidelines. While The Lender will not compromise quality, we are not simply a ratio or matrix driven company. All RD loans must be underwritten by a USDA approved lender. The Lender’s underwriters approve loans of investment quality risk. All loans will be reviewed with a common sense approach. Each loan is individually underwritten with emphasis placed on the overall quality of the loan. Although multiple risk factors are assessed, the underwriter will attempt to balance the evaluation between the borrower and the property.

As an innovative leader in the mortgage industry, The Lender expects to purchase loans that represent a marketable risk. The Lender will analyze the performance of a loan based on the collateral, credit characteristics and overall market conditions. Occasionally, The Lender may apply underwriting criteria, which is either more stringent or more flexible, depending on the economic conditions of the particular market. The borrower’s loan package must contain sufficient information to enable the underwriter to reach an informed and knowledgeable decision.

IMPLEMENTING CREDIT POLICY

It is the responsibility of all associates to become familiar with:

- Fair lending regulations; and
- The Lender’s stated credit policy;
- Laws and regulations that affect mortgage banking.

To assure all applicants of fair and equitable treatment, the underwriters are expected to exhaust all possibilities before denying a loan. All reasonable alternatives must be considered and presented to the applicant, as a counter offer, if it appears the loan may be approved under different terms than as submitted.

These efforts must be documented in the system notes or written documentation must be placed in the loan file. The consideration is to be applied consistently to all loan applications.

REGULATORY ISSUES

All associates who are involved in the mortgage origination process are expected to comply with all laws and regulations, which apply to our industry. Each associate is responsible for becoming familiar with, and practicing, the fair lending regulations set forth by the federal and state government.

Underwriters are especially cautioned to be conscious of the provisions for the Equal Credit Opportunity Act when evaluating an applicant's loan request. ECOA ensures that all persons have the same opportunity to obtain credit. A creditor cannot discriminate against an applicant on the basis of:

- Race;
- Color;
- Religion;
- National Origin;
- Sex;
- Marital Status;
- Family Status;
- Age;
- Receipt of income from a public assistance program; or
- The fact that the applicant has exercised any right under the Consumer Credit Protection Act.

GUIDELINE CHANGES

We strive to ensure the Credit Policy manual is current on all issues; however in the event that Credit Policy differs from specific investor and agency guideline changes, the most current release of the investor or agency guidelines will apply.

PRODUCT AVAILABILITY

Many of The Lender's available products are taken from negotiated commitments with investors. As a result of these commitments, The Lender's Product Summaries will define loan parameters and special underwriting considerations when necessary. When information is specified in the Product Summary which conflicts with existing Credit Policy, the Product Summary takes precedence over the Credit Policy Manual. It is essential that everyone become familiar with the Product Summaries and be cognizant of variances in:

- Documentation requirements;
- Eligible Property types;
- LTV and CLTV limits;
- Mortgage Insurance requirements;
- Occupancy limitations;
- Qualifying rates on ARM products;
- Qualifying ratios; and
- Subordinate financing restrictions.

CHAPTER 2 – RURAL HOUSING

SECTION 200.00 – RURAL HOUSING

200.00 – Introduction

Please refer to individual state USDA Rural Development guidelines available online for any issue not specifically addressed in this Credit Policy Manual. The link will allow you to select your specific state that the property is located. http://www.rurdev.usda.gov/recd_map.html

The basic objective of the guaranteed Rural Housing loan program is to assist eligible households in obtaining adequate but modest, decent, safe, and sanitary dwellings and related facilities for their own use in rural areas by guaranteeing sound RH loans. Guarantees issued under this subpart are limited to loans to applicants with incomes that do not exceed income limits as described in the following paragraphs.

The guarantee permits several unprecedented advantages over other loan products. Some of these include: No MI; 100% LTV financing not limited to lesser of contract or appraised value (finance in closing costs); no down payment; no reserves; unrestricted/undocumented gifts; flexible ratios; and no special Agency approval of mortgage brokers.

Features	Benefits
Downpayment is not required	Borrowers without savings, or who wish to retain their savings qualify
100% financing	More clients become homeowners
No reserves are required	Clients do not need to have seasoned funds, bank statements, or bank accounts
Expanded qualifying ratios 29/41	Clients with satisfactory credit may qualify with higher ratios to accommodate high cost housing areas, etc.
No Seller contribution limit	Reduce out of pocket costs for clients
Minimum FICO 620	Clients with non-traditional or no credit histories may qualify
One time 2% guarantee fee	No monthly mortgage insurance means a lower monthly payment for the clients and additional cash each month
2% guarantee fee can be rolled into the loan	Reduced money out of pocket for clients, and minimal increase in payment
Generous income limits based on 115% US median (not HUD)	Deductions are available for dependents, daycare, elderly households, etc. to assist more individuals and families in qualifying
No maximum purchase price limit	Clients choose the home that meets their needs and repayment ability
NOT just for first time buyers	All homebuyers are eligible for benefits
No limit on CLTV with soft 2 nd lien	Allows closing cost assistance from government sponsored entities.
Education/training substitute for job tenure	Income history for ratios is waived.
Lowest payment of affordable products	No MI, best rate, 30 yr gives lowest payment, less eligibility issues, more loan

Test all applicants for RD eligibility:

- Is the property in a rural designated area? Most counties are totally eligible. Check (and bookmark) the map at <http://eligibility.sc.egov.usda.gov> Click on 'single family' under the link "Property Eligibility". Either type in an address for an instant answer or go to the map and drill down to property location. You can slightly enlarge the map with the last button on the left of the map.

Rural Housing Credit Policy Manual

- Do they have less than 20% down payment (plus cash to move, etc)? They may retain their liquid assets and still obtain 102% financing with no down payment. Those with over 20% should obtain conventional financing if fully eligible.
- Is their household income within the Agency limits? Go to <http://eligibility.sc.egov.usda.gov> Click on 'single family' under 'Income Eligibility' and use the easy/fast calculator for an instant determination of eligibility. Receive an answer in a matter of seconds.
- Do they have reasonable credit? The Lender – not RD makes the final decision on an applicant's creditworthiness regardless of credit score. There is a streamlined documentation option available to those with a credit score of 620 or higher. The underwriter will determine if the file warrants using the streamlined option.
- Do they have reasonable repayment ability? The ratios are 29/41% (31%/43% for homes built after Jan 1, 2000) but can be waived when it makes sense. No waiver necessary with FICO of 660+.

The guaranteed Rural Housing loan program is administered through a network of USDA, Rural Development offices. The national headquarters is in Washington, D.C. All states have a headquarters unit and several local offices. The Lender must have Agency approval. Mortgage brokers do not need special Agency approval. The Lender shall adhere to all applicable Federal and State guidelines for RHS Guaranteed Loans.

200.01 – Loan Guarantee Process

- Mortgage brokers submit a Rural Development (RD) package along with the standard underwriting package to the approved lender. The brokers will use the RD checklist available from their RD local office. The originating or underwriting lender determines if applicant meets Rural Development income eligibility guidelines and if the property is located in an eligible area through the Income and Property Eligibility website. <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?Home>
- Underwriting lender will underwrite and submit underwritten application packages using the Origination Package Checklist directly to rural Development's Local Office serving the county in which the property is located. The State Office Locator website is: http://www.rurdev.usda.gov/recd_map.html RD does not underwrite the loan. Underwriting dialog is between the broker and lender, not RD.
- Rural Development Manager or designee reviews package and issues Conditional Commitment for Guarantee or will express the need for additional information within 2 business days. Commitments issued prior to or during the construction of a new home are issued for the anticipated construction period, not to exceed one year.
- Once Conditional Commitment is received, the lender may close the loan subject to the conditions listed.
- A Conditional Commitment is good for 90 days unless otherwise stated. It can be extended one time only for an additional 90 days upon written request to RD.
- After the loan closing, the Lender uses the RD Final Submission Checklist and submits the closing package to RD along with the guarantee fee.
- RD reviews and issues the Loan Note Guarantee to the Lender.

200.02 – Guaranteed Rural Housing Loans

Test all customers against these few simple criteria:

- Is the credit history reasonable? Underwriter must determine that the customer has a reasonable history to predict reliability.
- Does the customer have reasonable repayment ability?
- Do they have less than 20% liquid assets, not including retirement accounts?
- Is the property located in Agency designated rural area? In most cases the property is obviously rural. In urban areas, check the property address at <http://eligibility.sc.egov.usda.gov/eligibility> Click on "single family housing" under "Property Eligibility", type in an address for an instant determination or check the map.
- Is the family income within the Agency limits? This can be determined in less than five minutes at <http://eligibility.sc.egov.usda.gov/eligibility> Click on "single family housing" under "Income Eligibility" and fill in a few variables for an instant determination without having to know a lot of rules.

To be eligible, applicants must:

Rural Housing Credit Policy Manual

- Have an adequate and dependable income;
- Be a U.S. citizen or be legally admitted to the United States for permanent residence;
- Have an adjusted annual household income that does not exceed the RD moderate income limit for the area. A family's income includes the total gross income of the applicant, co-applicant and any other adults in the household. Applicants may be eligible to make certain adjustments to gross income, such as annual child care expense and \$480 for each minor child in order to qualify. Remove the need to remember income adjustments by using the RD fast and easy calculator at <http://eligibility.sc.egov.usda.gov/eligibility> Click on "Single Family Housing" under "Income Eligibility" and fill in the blanks. In addition, USDA Rural Development field offices can provide information on the moderate income limits for the areas that fall within their jurisdiction, and can provide further guidance on calculating household income;
- Have a credit history that indicates a reasonable willingness to meet obligations as they become due;
- Have repayment ability based on the following ratios: Principle, Interest, Taxes, and Insurance (PITI) divided by gross monthly income must be equal to or less than 29 percent. Total debt divided by gross monthly income must be equal to, or less than, 41 percent.

The Rural Development loan program limits eligibility to individuals who:

Lender must determine whether the applicant for a guaranteed loan is a U.S. citizen, a U.S. non-citizen national, or a "qualified alien." Generally, a U.S. non-citizen national is a person born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals. Typical evidence of the relatively uncommon status as a non-citizen national includes a birth certificate or passport, and persons who are non-citizen nationals are eligible for consideration under the SFHGLP.

A "qualified alien" is defined under PRWORA (8 U.S.C. Section 1641) as:

- an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act;
- an alien who is granted asylum under section 208 of such Act;
- a refugee who is admitted to the United States under section 207 of such Act;
- an alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year;
- an alien whose deportation is being withheld under section 243(h) of such Act; or
- an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980;
- an alien who is a Cuban/Haitian Entrant as defined by section 501(e) of the Refugee Education Assistance Act of 1980; or
- An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act (INA).

In all cases, non-citizens legally admitted into the United States will have an Alien Identification Number. In the rare occasion where a number is not available or known, the applicant should contact the CIS. There are cases where an alien has been legally in the US for a long period of time, and the Department of Homeland Security has supplied them with a number, but the alien did not ever receive or has misplaced the number.

Access to the Systematic Alien Verification for Entitlements (SAVE) Program database maintained by the Department of Homeland Security (DHS) Citizenship and Immigration Services (CIS): SAVE may assist in determining whether non-U.S. citizens are qualified to receive Federal assistance. Lenders must secure proof of identity and evidence that non-citizens who apply for a guaranteed loan are qualified aliens. The evidence confirming qualified alien status may be obtained after the lender has received an application for credit from the potential borrower. The lender may obtain the non-citizen's alien identification number and communicate it to the Agency office servicing their area. Agency staff will then submit the alien's identification number to SAVE and, in most cases, will be able to promptly inform the lender of the applicant's eligibility status based on the alien's Class of Admission (COA). In most cases, SAVE will provide immediate responses concerning the immigration status of an applicant.

NOTE: It is recommended that the request for the SAVE check be made at the time of submission of the Reservation of Funds (setting aside the Agency allocation for guaranteeing the loan).

In cases where the SAVE result is inconclusive, the lender should obtain any of the following documents are acceptable evidence of eligible immigration status:

Rural Housing Credit Policy Manual

1. CIS Form I-551, "Alien Registration Receipt Card" (for permanent or conditional resident aliens);
2. In some cases, the CIS will stamp a page of the alien's passport with the following information: PROCESSED FOR I-551 TEMPORARY EVIDENCE OF LAWFUL ADMISSION FOR PERMANENT RESIDENCE VALID UNTIL _____ EMPLOYMENT AUTHORIZED In these cases, the CIS official will handwrite the expiration date of the stamp in the blank space after the words "valid until", and may also handwrite the date of issuance above the stamp. Whenever this documentation is submitted as evidence of qualified alien status, a copy of the passport, including the stamped page, should be sent to the nearest CIS District Office along with CIS Form G-845S, "Document Verification Request." The CIS will return CIS Form G-845S to the requesting office with an indication whether the document is valid and relates to a permanent or conditional resident alien. CIS Form G-845S is available online at the following address: <http://uscis.gov/graphics/formsfee/forms/files/g-845s.pdf>
3. CIS Form I-688B, "Employment Authorization Card," which must be annotated "Provision of Law" followed by one of the provisions listed below: • 274a.12(c)(11), • 274a.12(a)(1), • 274a.12(a)(3), • 274a.12(a)(4), • 274a.12(a)(5), • 274a.12(a)(10).
4. CIS Form I-766, "Employment Authorization Document" annotated as follows: • A3, or • A5, or • A10.
5. CIS Form I-571, "Refugee Travel Document";
6. CIS Form I-94, Arrival-Departure Record, with one of the following annotations: • "Admitted as Refugee Pursuant to Section 207"; • "Section 208" or "Asylum"; • "Section 243(h)" or "Deportation stayed by Attorney General"; • "Paroled Pursuant to Section 212(d)(5) of the INA"; • "Admitted under Section 203(a)(7) of the INA."
7. If Form I-94 is not annotated, it will still be acceptable evidence of eligible immigration status if it is accompanied by one of the following documents: • A final court decision granting asylum (but only if no appeal is taken); • A letter from a CIS asylum officer granting asylum (if application is filed on or after October 1, 1990) or from a CIS district director granting asylum (if application was filed before October 1, 1990); • A court decision granting withholding of deportation; or • A letter from an asylum officer granting withholding of deportation (if application filed on or after October 1, 1990).
8. A receipt issued by the CIS indicating that an application for issuance of a replacement document in one of the above-listed categories has been made and the applicant's entitlement to the document has been verified; or
9. Other acceptable evidence. If other documents are determined by the CIS to constitute acceptable evidence of eligible immigration status, they will be announced by notice published in the Federal Register.

If the documentation described above appears to be altered or counterfeit, or if the alien presents unfamiliar CIS documentation, the Agency should complete CIS Form G-845S, "Document Verification Request," and forward it to the nearest CIS District Office for review. A copy of CIS Form G-845S is available on the internet at the following location <http://uscis.gov/graphics/formsfee/forms/files/g-845s.pdf>. Fully readable copies (front and back) of the original immigration documents should be attached to the CIS Form G-845S when it is submitted to the CIS District Office. The original documents should be returned to the non-citizen. There is a 10 business day CIS processing period. The location of CIS District Offices is available on the internet at <http://uscis.gov/graphics/fieldoffices/index.htm>.

200.03 – Highlights of the USDA Guaranteed Rural Housing Loan Program

- Loans may be for up to 100 percent of appraised value or the acquisition cost plus closing or development costs, whichever is less. The appraised value may be exceeded by any portion of the one time guarantee fee financed resulting in a LTV of up to 102%.
- No down payment is required;
- No PMI
- Unrestricted gifts. No seasoning, no gift letter.
- Mortgages are 30 year fixed rate term;
- Loans may include funds for closing costs, guarantee fee, legal fees, title services, cost of establishing an escrow account and other prepaid items, up to appraised value; May eliminate need to re-negotiate contract to increase seller's contribution.
- No Seller contribution limit;
- No cash reserve requirements;
- Applicant can have and retain liquid assets of up to 20% of purchase price and still be eligible (cannot qualify for conventional 20% down-payment loan)

Rural Housing Credit Policy Manual

- No max loan amount
- Ratios are 29/41. Ratio waivers possible with compensating factors
 - Energy ratios of 31/43 are available in some states. Contact your local RD office to verify.
- Middle credit score of 620 or above allows streamlined processing:
 - No explanations for accounts having past due history
 - Rent verification is not required
 - Recent bankruptcy discharge is allowed
- Non-traditional credit may substitute for lack of traditional credit history
- Soft secondary financing such as SHIPP, HOME, or FHLB can be used for closing costs and not counted in ratios
- Applicant can have and retain liquid assets of up to 20% of purchase price and still be eligible (cannot qualify for conventional 20% down-payment loan)
- For new and existing properties (except no existing manufactured homes)
- Not limited to first-time home buyers
- Bond loans: Use with bond loans to combine the advantage of the bond rate with the no downpayment and no PMI advantage of RD.
- Only 2 government forms required (Reservation of Funds and Application 1980-21)
- Income limits
- Interest rate maximum: Fannie Mae 90 day delivery rate plus 60 basis points, rounded up to the nearest quarter of one percent or the VA lender's no par rate plus 60 basis points. To view Fannie Mae Delivery rates: www.efanniemae.com/sf/refmaterials/hrny/ The lender must document the rate and the date it was determined on the 1980-21 "Request for SFH Loan Guarantee" question #10. The rate is typically less than the maximum and is set by the lender as shown on their rate sheet. The rate is NOT set by Rural Development.
- Discount points must be reasonable and customary – charging discount points on an above par rate is not reasonable nor customary
- Applicant cannot already own an adequate home within the local commuting area by time of closing this loan.
- No physical lot size limit, but lot value, as determined by appraiser, should not exceed 30% of the value of the total package (house and land)
- Homebuyer education may be required for 1st time homebuyers. Check with the local RD office.
- Home buyers make application with participating lenders;
- Buyers must personally occupy the dwelling following the purchase;
- Loans may be made to refinance either existing RHS Guaranteed Housing loans or RHS Section 502 Direct Housing loans;
- A one-time guarantee fee of 2 percent of the loan amount is charged to the lender, but may be passed on to the buyer;
- Closed loans have secondary market acceptability, including Freddie Mac, Fannie Mac, Ginnie Mae pools, and many states housing finance agencies;
- Co-signers are allowed only if they are going to occupy the property

Guaranteed loans are subject to the provisions of the Civil Rights statues, including the Equal Credit Opportunity Act.

200.04 – Eligible Properties

- All new or existing single-family housing stick-built or modular units common in the area are acceptable if they would otherwise qualify for FHA, VA, Freddie Mac, or Fannie Mae financing. The appraiser must be able to find at least three recent sales of comparable properties in the area.
 - Definition of new: Any home with certificate of occupancy or final inspection or certification of manufacture date within past 12 months and not previously occupied.
 - New can include recently completed homes, partially completed homes, and proposed construction.
- Typically there is no acreage limit, however, site value should not exceed 30% of the total appraised value and must be strongly supported by all comparables
- The property must be residential. Out buildings specifically dedicated to farm or business use cannot be financed.
- Only single family housing units, including condominiums and town homes are allowed
- Only new, never occupied manufactured homes are allowed; all manufactured home dealers must be pre-approved by Rural Development
- In-ground swimming pools are allowed if a waiver is granted by RD PRIOR to loan submission (to RD), they

are always allowed when included in a PUD or condo complex. A waiver request must be faxed or e-mailed to the local RD manager and contain the following information: Customer name; property address; appraised value with pool; appraised value without pool (or contributing value of pool). The request is sent by RD to RD headquarters. Expect 1-2 day response.

- Maximum loan without including guarantee fee is the value WITHOUT the pool. The portion of the guarantee fee financed can be tacked onto the value.
- Existing homes must be structurally sound, functionally adequate, and in good repair.
- There are no restrictions on the size or design of the home financed;
- The homes must not be primarily used for income-producing purposes;. Businesses that do not affect the residential nature of the residence or affect zoning are allowed.
- Homes must be located in rural areas. Rural areas include open country and places with a population of 10,000 or less and under certain conditions towns and cities with between 10,000 and 25,000 residents. Urban fringes contain eligible areas in most cases. For an instant determination of property location eligibility, go to <http://eligibility.sc.egov.usda.gov/eligibility>. Click on “single family” under “Property Eligibility” and type in the address. If the address is not found, go to the map. Select the state and county and zoom in on the area of the property. The lighter shaded area is eligible. Most counties are fully eligible. Be concerned only if the town appears to have 10,000 or more residents within the city limits. In addition, USDA Rural Development field offices can determine eligible areas.
- New and existing modular homes (generally similar to site-built homes, but are built in a plant, transported to the site, and lifted by crane onto the site-built foundation). These will have a Department of Community Affairs (DCA) label in the unit to designate it as “modular”. These generally have wooden floor girders.
- New manufactured (mobile) homes. Must be purchased from an Agency approved dealer and set up by HUD standard except in Florida where the State of Florida requirement is acceptable. See the local RD office for additional requirements such as landscaping, walkways, skirting, etc.

200.05 – Retaining Present Home as Rental Property

FHA released Mortgagee Letter ML 2008-25 on September 19, 2008, in response to an unscrupulous practice arising in the mortgage market that poses a risk not only to FHA, but also to SFHGLP portfolio and approved lenders. The practice is known in the mortgage industry as “buy and bail.”

An increasing number of homeowners are attempting to purchase new homes but cannot sell their existing principal dwellings because of prevailing market conditions. Some homeowners are then attempting to retain and rent out their existing principal residence, while at the same time trying to purchase a new principal residence. The homeowners attempting to rent out their existing properties are producing newly signed leases as evidence of income to offset the costs of maintaining the old residence and continue making payments on it. Increasingly, income from the new leases never materializes and the old principal residence goes into foreclosure.

A newly signed lease has no historical basis to conclude that the income is likely to continue. Applicants who wish to purchase a new principal residence and retain or rent a residence must qualify with all mortgage liability payments. Income from newly signed leases cannot be used in debt ratio calculations. The exclusion of rental income will ensure the applicant has sufficient monthly income to meet all mortgage and liability payments. This applies to manual and automated underwritten loan files.

Rental income should not be included in annual income calculations for program eligibility.

This guidance, similar to the FHA guidance in Mortgagee Letter 2005-25, is provided in an effort to prevent “buy and bail” scenarios.

If an applicant has historically leased a property that is “adequate and dependable income” as described above, then rents received by the applicant over the past 24 month period should be documented on IRS Form 1040, Schedule E. The income may be averaged over the past 24 month period, and depreciation may be added back to the net income or loss shown on Schedule E. Positive rental income may be considered as gross income for qualifying purposes. Negative rental income or cash flow must be treated as a recurring monthly liability.

Rural Housing Credit Policy Manual

We also call attention to RD Instruction 1980-D, section 1980.346(a) which outlines specific instances applicants must meet in order to retain a residence. The applicant must be a person who:

1. Does not own a dwelling in the local commuting area. (Example: Individual or family has been transferred or found employment in a different state, or outside of a reasonable commuting distance.)
OR
2. Owns a dwelling which is not structurally sound, functionally adequate. (Example: Home has documented structure, safety, or sanitation issues).

Other considerations:

1. The homestead exemption will be lost, resulting in significant real estate tax increase.
2. Insurance costs will go up (on the leased property).
3. Most customers do have cash reserves to cover maintenance or repairs for the rental.

In such cases, it is recommended that lenders contact Rural Development to confirm eligibility of a retained property prior to submitting a request for a conditional commitment for loan note guarantee. The same "adequate and dependable income" requirements described above remain applicable in these situations.

200.06 – Refinance Transactions

Term

Term of the new loan will be 30 years.

Interest Rate

- Interest rate of the new loan must be a fixed rate and cannot exceed the interest rate of the loan being refinanced. The interest rate must not exceed the established applicable usury rate. Loans guaranteed under this subpart must bear a fixed interest rate over the life of the loan. The rate shall be agreed upon by the borrower and the Lender and must not be more than the lender's published rate for VA first mortgage loans with no discount points or the current Fannie Mae rate as defined in [§1980.302\(a\)](#), whichever is higher. The lender must document the rate and the date it was determined.
- Funded buydown accounts are not permitted.

Security

Loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.

Household Income

Total adjusted income for the household cannot exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C.

Approved SFHGLP Lender

An approved SFHGLP lender must make the loan.

Loan Amount Limitations

- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts.
- Subordinate financing such as home equity seconds and down payment assistance "silent" seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien.
- Applicants are not eligible to receive "cash out" from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of "cash out" not to exceed \$500.00 to the applicants may occasionally result due to final escrow and interest calculations. Principal reductions are not allowed.
- Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount.

Rural and Non-Rural Areas

SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

Applicant Eligibility

As part of the refinancing transaction, additional borrowers may be added to the new SFHGLP loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements.

Processing Requirements

The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except when provided otherwise in this chapter.

Reservation of Funds After the lender has determined that an applicant will likely qualify for a guaranteed refinance loan, the lender or originator should request a reservation of funds to ensure that funds will be available at the time the loan is ready for final loan approval. Field staff will reserve funds upon receipt of [Form RD 1980-86](#), "Request for Reservation of Funds" from the lender, and funds will remain reserved for 60 days.

Loan Application Documentation

Application and verification requirements of RD Instruction 1980-D, section 1980.353(c) and (e) apply and are as follows:

Applications. If, upon completion of the loan underwriting process of an application, the Lender concludes that the application can be considered for an RHS guarantee, the Lender will provide written documentation addressing each of the loan eligibility requirements of this subpart and the basis for the conclusion in the applicant's file. The Lender will submit a request for the guarantee using a Form FmHA 1980-21, "Request for Single Family Housing Loan Guarantee." The form should contain or be supplemented with all of the following information:

1. Name, address, telephone number, social security number, age, citizenship status of the applicant, and number of persons in the household.
2. Amount of loan request and proposed use of loan funds.
3. Name, address, contact person, and telephone number of the proposed Lender.
4. Anticipated loan rates and terms, the date and amount of the Fannie Mae or VA rate used to determine the interest rate.
5. Statement from the Lender that it will not make the loan as requested by the applicant without the proposed guarantee and that the applicant has been advised in writing that the applicant is subject to criminal action if he or she knowingly and willfully gives false information to obtain a federally guaranteed loan.
6. If the applicant is not a United States citizen, evidence of being legally admitted for permanent residence or indefinite parole.
7. The applicant's sex, race, and veteran status and whether applicant is a first-time homebuyer.
8. An appraisal report including information about the dwelling location with respect to neighborhood and community services and facilities, business and industrial enterprises, and streets or roads serving the housing.
9. Credit report obtained by the Lender.
10. An equal opportunity agreement supplied by RHS for construction contracts costing more than \$10,000.
11. Evidence of compliance with the Privacy Act of 1974.
12. Lender's loan underwriting (repayment ability, creditworthiness, and security value).
13. A certification from the borrower regarding debarment, suspension, ineligibility, and voluntary exclusion from Federal programs using a form supplied by RHS.
14. A statement signed by the borrower acknowledging that the borrower understands that RHS approval of the guarantee is required and is subject to the availability of funds.
15. A copy of a valid verification of income for each adult member of the household.

Verifying information provided. Written documentation from third parties is the preferred method of verifying information. Verifications must pass directly from the source of information to the Lender and shall not pass through the hands of a third party or applicant.

1. *Income verification.* Employment verifications and other income verifications obtained in accordance with this paragraph are valid for 120 days (180 days for proposed new construction). Income verifications must be valid at the time the conditional commitment is issued.
 - a. An RHS approved form or the equivalent HUD/FHA/VA or Fannie Mae form will be used to verify employment income of the loan applicant except when the applicant is self-employed. The form will be signed by the applicant or borrower or accompanied by an authorization for a release of information form signed by the applicant or borrower and sent directly to the employer by the Lender. The Lender should also obtain copies of the three most recent paycheck stubs. The information in the employer verification should be compared to the information in the paycheck stubs for consistency.
 - b. Income information that cannot be obtained by use of this form will be obtained in writing from third parties to the extent possible.
 - c. Alimony and/or child support payments will be verified by obtaining a copy of the divorce decree or other legal document indicating the amount of the payments. The Lender will request documentation from the official entity through which payments are received or other third party able to provide the verification when payment is not made through an official entity indicating the amounts and dates of payments to the applicant during the previous 12 months.
 - d. Applicants and borrowers deriving their income from a farming or business enterprise will provide current documentation of the income and expenses of the operation. In addition, historic information from the previous fiscal year must be presented.
 - e. Social Security, pension, and disability income may be verified by obtaining a copy of the most recent award or benefit letter prepared and signed by the authorizing agency. This verification will be considered valid only for 1 year from the date of the award or benefit letter.
2. *Verification of disability.* An RHS supplied form will be used to verify disability in cases where State Review Board or Social Security records are not available. Receipt of veteran's benefits for disability, whether service-oriented or otherwise, does not automatically establish disability.
3. *Verification of alien status.* Aliens are required to present acceptable documentation of their status.
4. *Verification of credit history and current debt.* The Lender shall determine all liabilities of all parties responsible for repayment of the proposed loan. Credit reporting information must pass directly between the Lender and the credit reporting agency or source.
 - a. Mortgage credit reports shall be used to determine creditworthiness unless the applicant resides in a remote rural area and conclusive or sufficient information would not be available. Information relative to judgments, garnishments, foreclosures, and bankruptcies must be obtained when a credit report is not obtained.
 - b. The credit report must be the most recent revision of the Residential Mortgage Credit Report form and meet the standards prescribed by Fannie Mae, Freddie Mac, HUD, VA, or RHS.

Application and verification requirements of RD Instruction 1980-D, [section 1980.353\(c\) and \(e\)](#) apply, except for that portion of paragraph (c)(4) that deals with maximum interest rate and paragraph (c)(16) (purchase agreement). The following items must be addressed or documented in the lender's loan file in order for the application to be considered complete:

- Signed copy of the final loan application.
- Current credit report.
- Any late mortgage payments within the past 36 months on the existing SFHGLP loan must be addressed by the lender and taken into consideration in the underwriting decision.
- Lender verification of applicant's current employment and income.
- Lender verification that the total adjusted income for the household does not exceed the current moderate income level established for the area.
- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced. Ratios must meet requirements as stated in RD Instruction 1980-D, [section 1980.345\(c\)\(3\)](#). The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of acceptable compensating factors. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.
- Applicants will sign all applicable RD forms including [Form RD 1980-21](#), "Request for Single Family Housing Loan Guarantee".

- Notwithstanding RD Instruction 1980-D, [section 1980.334](#) requirements, a complete appraisal report will be required only in cases when any accrued interest, closing costs and/or lender fees will be financed into the loan.
- No property inspections or thermal certification are necessary. Although Rural Development does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

Using Guaranteed Underwriting System (GUS) for Processing of Refinancing Applications

All loans are eligible for processing through GUS. Loans that receive an "accept" message will only require the following documents submitted to the Agency:

- A complete Federal National Mortgage Association ([FNMA Form 1004 or Freddie Mac Form 70](#)), "Uniform Residential Appraisal Report" (URAR) or its equivalent for condominiums or manufactured housing, if required under the documentation requirements of this Administrative Notice; and,
- [Form RD 1980-21](#), "Request for Single Family Housing Loan Guarantee". The form should be duly completed and executed by the lender and borrower.

Loan which receive a "refer" or a "refer with caution" message will have full documentation submitted as outlined above (Loan Application Documentation).

Submission Process

After underwriting and approval of the loan, the lender will submit the loan application package for Agency review. The Agency will review applications to determine that all program requirements have been met.

Use of SFHGLP funds for the sole purpose of refinancing an existing 502 Guaranteed Loan is considered a servicing action and a categorical exclusion under RD Instruction 1940-G, section 1940.310(e)(2). In accordance with RD Instruction 1940-G, section 1940.317(c)(4), completion of Form RD 1940-22, "Environmental Checklist for Categorical Exclusions," will typically not be required because refinance transactions will not likely have the potential to adversely affect environmentally sensitive land uses or resources. However, in extraordinary circumstances, the Agency loan approval official may be aware of an environmentally sensitive situation, such as reports of chemical spills in the area or hazardous material waste sites that have been developed in the community, that may impact the application and require further analysis as prescribed in RD Instruction 1940-G.

Following Rural Development approval, funds will be obligated and a Conditional Commitment issued.

Closing Costs and Lender Fees

As stated in RD Instruction 1980-D, [section 1980.324\(a\)](#), the lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to ensure that applicants are not being charged excessive fees as part of the new loan. At this time, discount points are not eligible to be financed.

Guarantee Fee

The guarantee fee for SFHGLP refinances will be 0.5 percent. The guarantee fee may be financed into any SFHGLP refinancing loan. As usual, applicants may finance closing costs and fees up to 100 percent of the current appraised value. However, it is possible that the LTV of the new loan could exceed 100 percent when the guarantee fee is financed. Loans may only exceed 100 percent LTV to the extent that the excess represents a financed guarantee fee. A new appraisal is not required when the amount to be refinanced is limited to the outstanding loan balance plus the guaranteed fee.

Loan Note Guarantee Issuance Requirements

Once the lender has closed the loan, closing documentation should be submitted to the Agency in accordance with RD Instruction 1980-D, [section 1980.361\(a\)](#). Provided that the lender's loan closing documentation is adequate, a Loan Note Guarantee will be issued to cover the terms of the new loan. The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans. Once the Agency's loan closing has processed and the new Loan Note Guarantee has been issued, the Finance Office should be notified to terminate the original guarantee due to the loan being refinanced through the SFHGLP

program. Notifications should be made to the Finance Office, Guaranteed Loan Branch, Attn: FC-350 or by Fax at (314) 457-4279.

Funding Limitations

There will be no limit placed on the number of refinance loans made from the allocation at this time.

SUMMARY:

The intent of the new refinance feature of the SFHGLP loan program is to give existing SFHGLP borrowers with satisfactory payment histories the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners. Applicants must meet all existing eligibility requirements as stated in RD Instruction 1980-D. The Agency should give applicants with existing SFHGLP loans that are in good standing every consideration when applying for a SFHGLP refinance loan. SFHGLP refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are not remaining current on their existing SFHGLP loan. Delinquent SFHGLP loans should be reviewed and evaluated using the loan servicing guidelines currently outlined in RD Instruction 1980-D, [section 1980.370](#) and current Administrative Notices.

200.07 – Determining Income

The Rural Housing Service (RHS) will accept verification methodologies similar to those currently acceptable to the residential mortgage industry, secondary markets, and other Federal agencies. This section only addresses verification of employment and income documentation for non-self employed applicants.

Two separate, but equally essential components to the Single Family Housing Guaranteed Loan Program require the Lender to determine:

1. The applicant's **adequate and dependable income**. This figure is used to determine the applicant's repayment ability.
2. The applicant's **adjusted annual income**. This income figure is used to determine eligibility for the RHS loan guarantee.

Applicants must document that their adjusted annual household income (total income of ALL household members) does not exceed the moderate income limits established for the county and family size. For a quick and easy determine if applicant and/or property are eligible, go to the Eligibility Website at <http://eligibility.sc.egov.usda.gov/eligibility/mainservlet>

- A family's income includes the total gross income of all adult household members. Applicants may be eligible to make certain adjustments to gross income, such as deducting annual child care expense and \$480 for each minor child in order to qualify. USDA Rural Development field offices can provide information on the moderate income limits for the areas that fall within their jurisdiction, and can provide further guidance on calculating household income
- Have a credit history that indicates a reasonable willingness to meet obligations as they become due
- Have repayment ability based on the following ratios: Principle, Interest, Taxes, and Insurance (PITI) divided by gross monthly income should be equal to or less than 29 percent. Total debt divided by gross monthly income should be equal to, or less than 41 percent. Certain states allow energy ratios of 31/43. Check with the RD local offices. The underwriting lender may recommend higher ratios based on solid compensating factors.

Eligibility vs. Qualifying Income

The easiest way to determine eligibility is at the Eligibility website located at:

<http://eligibility.sc.egov.usda.gov/eligibility/mainservlet> Click on "single family housing" under "Income Eligibility" and fill in the few boxes of information. It will give an instant confirmation or rejection. If it rejects the information, go back and check all input and if the answer is still a reject, consult of the lender processor or RD to confirm that an accurate calculation was completed.

Eligibility - for the GRH loan must be determined first. This consists of counting all household income (not just borrowers on the note) then applying certain deductions RD allows to determine "adjusted household income".

As long as this adjusted household income is below the income limits established by RD for then the applicants are eligible

Repayment or Qualifying – income is the determined. Incomes of ONLY household members who are party to the note are counted for determining repayment or qualifying income. This is a separate determination from determining program eligibility as discussed in eligibility step. Other household income and eligibility deductions are ignored

Income Definitions

Two income definitions are used. Whenever income determinations are made, it is essential that the lender use the correct income definition and consider income from the appropriate household members. To determine whether the applicant will be able to repay a loan, the lender must use repayment or qualifying income. To determine whether an applicant is income-eligible to receive a Section 502 Guaranteed rural Housing program loan, the lender must use adjusted or eligibility income. Adjusted or eligibility income is calculated in 2 steps. First, the gross annual income of all adult household members is calculated. Then, certain household deductions for which the family may qualify are subtracted from annual income to compute adjusted or eligibility income.

Who's Income to Count?

For repayment or qualifying income, the lender must consider only the income of household members who will be parties to the note. For adjusted or eligibility income, the income of all household members must be considered. For both types, live-in aides, foster children, and foster adults living in the household are not considered household members.

Income Limits

Adjusted or eligibility income should be compared to the income limits as set out in USDA Rural Development Instruction to determine if the applicants are eligible for a Section 502 Guaranteed rural Housing program loan. <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?Home> Click on "single family housing" under "Income Eligibility" and fill in a few variables for a fast and easy automatic calculation and determination of eligibility.

Applicant Certification and Verification Requirements

Each applicant must provide income, expense, and household information needed to enable the lender to make income determinations.

Income That is Never Counted

The following income is never counted for either repayment or annual income:

- Income received by live-in aides, regardless of whether the live-in aide is paid by the family or a social service program (family members cannot be considered live-in aides unless that are being paid by a health agency and have an address, other than a post office box elsewhere);
- Income received by foster children or foster adults who live in the household;
- Earned income of minor (however, earned income from a spouse that is a minor or unearned income attributable to a minor, such as child support, aid to families with dependent children (AFDC) payments, and other benefits paid on behalf of a minor are counted; or
- Payments received on reverse amortization mortgages (these payments are considered a draw on the applicant's assets).

Calculating Adjusted or "Eligibility" Income

Adjusted or eligibility income is used to determine an applicant's eligibility for the Section 502 Guaranteed Rural Housing program.

Calculating Eligibility Income

Annual income is used as the base for computing adjusted income. The income of all household members, not just parties to the note, should be considered when computing annual income for eligibility purposes.

Calculating Deductions from Annual Income

There is no need to calculate deductions if the gross household income is less than the allowed RD limits. There is no need to remember specific adjustments to income when you use the easy and simple calculator at the web site. It is sufficient to remember that when the family's gross income is above the limit you can take certain adjustments to bring the income down to perhaps within the limits.

Dependent Deduction

A deduction from annual income of \$480 is made for each household member who qualifies as a dependent. Dependents are members of the family who are not the head or spouse, and who are age 17 or younger, an individual with a disability, or a full-time student.

Child Care Expenses

Reasonable un-reimbursed child care expenses for the care of children age 12 and under are deducted from annual income if: (1) the care enables a family member to work, actively seek employment, or go to school; (2) no other adult household member is available to care for the children; (3) in the case of child care that enables a family members to work, the expenses deducted do not exceed the amount of income included in annual income earned by the household member enabled to work. If the child care provided is a household member, the cost of the children's care cannot be deducted.

A simple letter from the childcare provider is sufficient documentation for the childcare deduction for eligibility purposes. Childcare is not counted as a debt. It only serves the purpose of reducing eligibility income to below the applicable GRH loan county income limit if necessary. In fact, no childcare would have to be documented if applicant is already below the applicable county income limit for a GRH loan. A childcare letter is provided in this manual.

Elderly Household deduction

A single \$400 deduction is subtracted from annual income for any elderly household. To be considered an elderly household, the head of household, spouse, or sole member or a family who is party to the note must be 62 years of age or older, or an individual with a disability.

Care of Household members

Reasonable expenses for the care of an individual with disabilities in excess of 3 percent of annual income may be deducted from annual income if the expenses:

- Enable the individual with disabilities or another family member to work;
- Are not reimbursable from insurance or any other source; and
- Do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the expenses.

To qualify for this deduction, applicants must identify the individual with a disability on the application, form RD 1944-4, Certification of Disability or handicap should be used to request verification of the individual's disability from a physician or other medical professional.

Deduction for Medical Expenses (for Elderly Households Only)

Medical expenses may be deducted from annual income for elderly households if the expenses: (1) will not be reimbursed by insurance or another source; and (2) when combined with any disability assistance expenses are in excess of 3 percent of annual income.

Rural Housing Credit Policy Manual

If the household qualifies for the medical expenses deduction, expenses of the entire family are considered. For example, if a household included the head (grandmother, age 64), her son (age 37), and her granddaughter (age 6), the medical expenses of all 3 family members would be considered.

One of the most challenging aspects of determining allowable medical expenses is estimating household's medical expenses for the coming year. While some anticipated expenses can be documented easily (for example, Medicare or other health insurance premiums and ongoing prescriptions), others need to be estimated. The lender should use historical information about medical bills to estimate futures expenses. However, the estimates should be realistic. For example, if the household has a significant medical bill, the lender would count only that portion of the bill that is likely to be paid during the coming year.

Determining eligibility example

Example: family of 4 with 2 children. Children's ages are 5 & 7. both parents work. His income is \$29,000, her income is \$36,000. Child-care is \$300 month.
County income limit \$62,000

Total household income:	\$65,000
Deduction: \$480 per child under 18:	\$960
Annual child-care deduction:	\$3,600
Adjusted household income	\$60,440

They are Eligible for RD loan despite the fact that on the surface they appeared to be above the county income limit.

Calculating Repayment Income

Repayment or Qualifying income is the amount of the household's income that is available to repay the debt. To compute repayment income, the lender should count only the income of persons who will be parties to the note. Deductions used to determine adjusted or eligibility income are disregarded when using repayment or qualifying income.

Determining Repayment Ability Example

Using the above example, assuming that both parties are applying for the loan and are part of the note we would ignore the above deduction in determining repayment ability and use the total of their incomes

His income:	\$29,000
Her income:	\$36,000
Total income:	\$65,000

Qualifying ratios would be calculated on \$65,000 income.

200.08 – Documenting Income – Other than Self-Employed

Income History

Lenders may consider education or documented training in lieu of employment history in order to assist borrowers entering their profession. Their probation period, if any, should be satisfactorily completed. The education or training should be related to their field of employment.

Acceptable Documentation:

The following documentation is deemed acceptable for verifying the employment income of non-self employed applicants:

Rural Housing Credit Policy Manual

- Form RD 1910-5 "Request for Verification of Employment", (or the equivalent HUD/FHA/VA or Fannie Mae Form), and the most recent paycheck stub, or
- Original or true and certified copies of paycheck stubs or payroll earnings statements (signed by employer) covering the most recent 30-day pay period, AND W-2 tax forms for the previous 2 tax years, AND telephone verification of applicant's current employment, or
- Electronic verification or other computer-generated documents accessed and printed from an Intranet or Internet (must clearly identify applicant) covering the most recent 30-day pay period, AND W-2 tax forms for the previous 2 tax years, AND telephone verification of applicant's current employment.

Verification of Employment:

The Verification of employment must be:

- Signed by the applicant
- Sent directly to the employer by the Lender
- Completed by employer and returned directly to the Lender without passing through any third parties, including the applicant
- Completed within 120 days for existing construction (180 days for proposed new construction) prior to the time Form RD 1980-18, "conditional Commitment for Single Family Housing Loan Guarantee," is issued

Some employers routinely leave certain portions of the VOE form blank; e.g., item #11 relating to probability of continued employment. In most cases, this will probably be acceptable.

When underwriting the loan the Lender must be able to make the determination that the applicant(s) has adequate and dependable income. If the applicant's loan repayment ability cannot be determined or is not acceptable, the loan must be denied.

The paycheck stub or payroll earnings statement must:

- Be the original computer-generated or typed document (the original paycheck stubs or payroll earnings statements may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are acceptable.)
- Be the most recent as of the date of the initial loan application is made
- Clearly identify the applicant as the employee by name and/or social security number
- Clearly identify the identity of the employer
- Show the applicant's gross earnings for the most recent 30-day period as well as and year-to-date earnings. To document a 30-day period will usually require obtaining 2-4 paycheck stubs. By obtaining pay stubs for a full 30 day period, allows the lender to properly underwrite the loan application using alternative documentation

If the applicant's paycheck stub or payroll earnings statement does not contain all of the information required; e.g., gross year-to-date earnings, the lender must attempt to obtain this information in the telephone verification with the applicant's employer.

W-2 Form:

Be the original, computer-generated or typed, employee copies provided by the employer. The original W-2 forms may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.

- Cover the 2 most recent tax years
- Not contain any alterations, erasures, or corrections

The telephone verification should be substantiated by a written document that shows:

- Contact was made within 120 days of loan closing (180 days for proposed new construction).
- Employer/company name, address and phone number
- Employer's contact person and title
- Applicant's name, date of employment and present position
- Probability of continued employment

Rural Housing Credit Policy Manual

- Amount of current base pay
- Amount of other income such as overtime, bonus, commissions, etc.
- Likelihood that the level of current earnings will continue
- Name and title of Lender's employee that contacted the employer

Some employers will not release certain detailed information over the telephone, for example, amount of current earnings. This is acceptable provided the paycheck stubs or payroll earnings statements contain this information. Also, the telephone verification can be used to supplement the written documentation when the written documentation is not clear, or incomplete.

The electronic verification or other computer-generated document accessed and printed from an Intranet or Internet should:

- Cover the most recent pay period as of the date the initial loan application is made
- Clearly identify the applicant as the employee by name and/or social security number
- Show the applicant's gross earnings for the most recent 30-day period and year-to-date

200.09 – Calculating Self-Employed Income

RD requires the Lender to determine:

- The self-employed applicant's adequate and dependable income – This income figure is used to determine the applicant's qualification to repay the requested loan
- The self-employed applicant's annual income and adjusted annual income, figures are used in the determination of an applicant's eligibility for the rural Housing Service loan guarantee

RD regulations recognize that an applicant's qualifying income may be different than the applicant's eligibility income. The distinction is important to remember when determining how to apply the different rules.

The annual income determination requirements were designated to help ensure that the program benefits go to eligible households. Consistent application of these requirements is important to ensure fairness to all self-employed applicants.

The adequate and dependable repayment income requirements were designed to help ensure that borrowers will be able to make the loan payments and stay in their homes. Consistent application of these requirements is important to ensure that all qualified self-employed borrowers are approved for a Guaranteed rural Housing (GRH) loan.

The self-employed applicant also should submit current documentation of the business's income and expenses, including any applicable Federal tax returns that were filed with the IRS for the most recent two years as well as year-to-date profit and loss balance statements. Depending on the facts of the individual application, the lender may require more documentation in order to determine the self-employed applicant's income. The tax return documentation should be complete and include all appropriate schedules. The type of self-employment (e.g., sole proprietorship, partnership, or corporations), typically will determine which schedules are appropriate.

Examples of tax return documentation include:

- Form 1040 (individual Income Tax Return)
- Schedule C (Profit or Loss from Business, Sole proprietorship)
- Schedule F (Profit or Loss from Farming)
- Schedule D (Capital Gains and Losses)
- Schedule SE (Self-employment Tax)
- Schedule J (farm Income Averaging)

Other tax forms include:

- Form 1065 (Partnership)
- Form 1120S (S corporation), and
- Form 1120 (corporation)

The self-employed applicant also should submit current documentation of the business's income and expenses, including any applicable Federal tax returns that were filed with the IRS for the most recent two years as well as year-to-date profit and loss and balance statements. Depending on the facts of the individual application, the lender may require more documentation in order to determine the self-employed applicant's income. In all cases, the lender must contain sufficient documentation to support its determination regarding the viability of the business and the self-employed applicant's income.

We strongly encourage the use of Fannie Mae Form 1084, "Cash flow Analysis" worksheet, but other forms may be used as long as they provide the same information.

When completing the calculations, the lender may add the following allowable IRS deductions to net profit (item #31 on Schedule C or item #36 on Schedule F):

- Depletion (item #12 on Schedule C)
- Depreciation (item #13 on Schedule C or item #16 on Schedule F)

Net Profit + Depletion + Depreciation = Repayment Income

If a debt as a car loan is paid through the business, the debt does not need to be included in debt ratio calculations as long as documentation is provided that the debt is paid by the business. Documentation showing that the debt payments are made by the business should include 12 months of cancelled business checks.

Summary:

Please note that the methodology described applies only to the self-employed applicant's qualifying or repayment income. Underwriters must continue to consider capital expenditures and straight-line depreciation when determining annual income for eligibility purposes.

200.10 – Credit Reports

Information lenders use to make applicant credit evaluations are typically obtained from one of the following sources:

Rapid Reporting Credit Reports are not accepted by the Lender

In-File Credit Reports: An in-file credit report is issued by one credit repository or credit reporting agency. It contains "as is" information as of the last date reported by the debt grantor subscribing or reporting to the credit repository. No information is updated or re-verified by the credit repository as a result of the mortgage credit inquiry. A minimum of two credit repository reports is required for rural Development purposes.

Merged, Tri-Merged, or Multi-Merged Credit Reports (MMCR): A MMCR is issued by a credit repository or consumer reporting agency and includes the in-file credit report information from at least two credit repositories. Merged credit reports are also known as tri-merged credit reports if the merged report contains in-file credit report information from three credit repositories.

The MMCR must identify all the credit repositories whose information was merged into the report. The credit information from each credit repository may be presented in their entirety on the MMCR, or the consumer reporting agency may eliminate duplicate records through an automated merge process. Duplicate information need not be repeated. However, if the duplicate information is not exactly the same on each report, the MMCR must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and/or current payment status.

The MMCR, in effect, is an adaptation of the Residential Mortgage Credit Reports (RMCR). Substantially all the information supplied on an RMCR, which is not on an MMCR (i.e. income and employment verification), is already obtained and verified independently by lenders under current procedures.

Residential Mortgage Credit Reports: A RMCR contains merged credit information from at least two national repositories. The consumer reporting agency or bureau supplying the RMCR typically uses its best efforts to re-verify accounts directly with creditors (if the account is reported to have a balance but was updated by the creditor over 90 days from the date of the credit report). The consumer reporting agency also attempts to verify the applicant's employment and residence history. The consumer reporting agency interviews the applicants when the lender has incomplete information or when it discovers information that indicates the possible existence of undisclosed credit obligations or public records.

Non-Traditional Mortgage Credit Reports (NTMCR): A NTMCR is developed by a credit reporting agency and is designed to assess the credit history for borrowers without the types of trade references normally appearing on a credit report. NTMCRs are typically used for those prospective borrowers who have not yet established a credit history or who do not use traditional credit. A NTMCR may be used either as a substitute for an RMCR or MMCR for those borrowers without a credit history with traditional credit grantors, or to supplement RMCR's or MMCR's that do not have sufficient traditional credit references reported. An NTMCR may not, however, be used to enhance the credit history of borrowers with poor payment records. It may not be used to offset derogatory found in the borrower's RMCR or MMCR.

If the information obtained through the RMCR or MMCR is not available or not sufficient for the lender to make a prudent underwriting decision, the lender may use an NTMCR that documents all available nontraditional credit reference. Non-traditional credit references may include:

- Utility payment records (if utilities were not included in the rental payments)
- Rental payments
- Insurance payments (excluding those paid through payroll deductions) such as medical, automobile, life and household, or renter's insurance
- Payment to child care providers
- School tuition
- Payments to local stores
- Payments for the uninsured portions of any medical bills
- Any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations

Alternatively, rather than order an NTMCR from a consumer reporting agency, a lender may develop its own nontraditional credit history for a proposed applicant provided that the analysis includes the types of references, when available, listed above. The lender should consider only those types of credit that require the applicant to make periodic payments on a regular basis.

RMCRs, MMCRs and NTMCRs that meet the standards of Fannie Mae, Freddie Mac, Housing and Urban Development (HUD) and the Department of Veteran Affairs (VA) are acceptable for Rural Development purposes. In the case of MMCRs, tri-merged reports are preferred because they contain in-file credit report information from three separate credit repositories. Dual-merged credit reports are acceptable only if that is the extent of the data available for the borrower. If only one in-file report is available for the borrower, the lender must obtain an RMCR.

While an MMCR should prove sufficient for processing most loan applications, other circumstances that require the ordering of an RMCR include:

- The borrower disputes accounts on the MMCR as belonging to someone else; or
- The borrower claims that collections, judgments, or liens reflected as open on the MMCR have been paid and cannot provide separate documentation supporting this; or
- The borrower claims that certain debts shown on the MMCR have different balances or payments and cannot provide current statements (less than 30 days old) attesting to this fact; or
- The lender's underwriter determines that it would be prudent to utilize a RMCR in lieu of an MMCR to properly underwrite the loan

Rent History

Some first time homebuyers simply do not have a verifiable housing or rent payment history. In such cases, a rent history is not required. If the applicant's and co-applicant, if any, FICO score is over 620, there is no need to verify an applicant's rent payment history.

200.11 – Utilizing Credit Scores

Under certain circumstances, and if the underwriter approves; FICO scores may be utilized to reduce or streamline documentation requirements for SFHGLP applicants and co-applicants, if any, with FICO scores of 620 or higher.

Streamlined Documentation when the FICO Credit Score is 620 or Higher (not available when payment shock exceeds 100% or there is no history of previous housing expense and no FICO score, and must be approved by the underwriter)

If approved by the underwriter, SFHGLP applicants with FICO scores of 620 or above may take advantage of the streamlined documentation requirements listed below.

- A lender shall not be required to document adverse credit history waivers, except for those involving a delinquent Federal debt or previous Agency loan.
- A lender shall not be required to document applicant rent payment history.
- No action will necessary for any derogatory items contained on the credit history except for those involving a delinquent Federal debt or previous Agency loan. For example, if the credit report indicates there have been incidents of more than one debt payment more than 30 days late within the last 12 months, those incidents will not be investigated and considered evidence of an inadequate credit history if the FICO score is at least 620. As another example, if there is a non-Federal collection account outstanding, it too need not be investigated or considered, and there will be no requirement that evidence be furnished showing the collection account has been resolved or that arrangements for repayment have been made.

Please note that the underwriter makes the determination if the applicant's are eligible for any of the above.

Applicants with FICO Credit Scores Under 620 are not acceptable

The Lender currently does not accept FICO scores below 620

Treatment of Applicant Collection Account

RD Instruction 1980-D, section 1980.345(d)(1) states that an unacceptable credit history exists if the applicant's credit history contains any of the specified items, including the following:

- Accounts which have been converted to collections within the last 12 months; or
- Collection accounts outstanding, with no satisfactory arrangements for payments, no matter what their age as long as they are currently delinquent and/or due and payable

RD Instruction 1980-D, section 1980-345(d)(3) permits a lender to consider mitigating circumstances to establish the applicant's intent for good credit. In such cases the lender and borrower must document that the circumstances surrounding the derogatory credit were of a temporary nature, and beyond the applicant's control, and have been removed. Alternately, the lender and borrower must document that the adverse action or delinquency was the result of a refusal to make full payment because of defective goods or services, or as a result of some other justifiable dispute relating to the goods or services purchased or contracted for.

Based on the regulation, paying an outstanding collection account is not justification, in itself, that would establish an applicant has demonstrated a willingness to meet obligations in an acceptable manner. Payment of the collection account may cause the depletion of cash resources that could otherwise be available as reserves or for closing costs. The lender's underwriter is required to determine the prospects of the applicant repaying the loan to be guaranteed by the Agency. If the lender establishes there were mitigating circumstances to adverse credit in accordance with section 1980-345(d)(3), the underwriter may determine that it is not necessary to pay a collection account in order to establish the applicant's creditworthiness. Lender is responsible to determine what collection accounts, if any, should be paid in full by the borrower prior to or at loan closing. Mitigating

Rural Housing Credit Policy Manual

circumstances must be documented in the file. The lender should document the determination on the underwriting transmittal. If the applicant has a credit score of 620 or higher, further documentation by the lender is not required.

200.12 – Debt Ratio Waivers

Approved loan files that are manually underwritten and exceed the 29/41 ratio thresholds must have a written ratio waiver request submitted to Rural Development. The request must identify the compensating factors to support this risk layer of the loan file. There is no minimum number of compensating factors required, but the lender should use this opportunity to support their approval of the loan file. This guidance also applies to GUS loans that receive an underwriting recommendation of “Refer” or “Refer with Caution.” Rural Development will issue ratio waiver approvals in writing to the lender which must be retained in the permanent case file.

In the current mortgage environment, less is not more. Underwriters are REQUIRED to document their credit waivers and ratio requests on the Underwriting Transmittal Summary (FNMA 1008/FHLC 1077). All supporting documentation must be retained in the lender’s permanent case file.

GUS loans that receive an underwriting recommendation of “Accept” do not require underwriter credit waivers or ratio waiver requests.

In the guaranteed loan program an applicant meets agency requirements for repayment ability if their PITI debt ratio is 29% or less, and the Total Debt ratio is 41% or less.

It is common for underwriters and Rural Development to make exceptions to both the PITI and TD ratio requirements. There is not a maximum amount that the ratios standards may be exceeded. The stronger the compensating factors, the more flexibility RD may exercise in approving higher ratio waivers. PITI ratios in the high 30’s and TD ratios in the high 40’s are not uncommon. RD does not require a ratio waiver when the FICO is 660 or above.

Request to exceed the standard ratios must be submitted in writing to Rural Development by the underwriting lender, including the documentation of appropriate compensating factors for support on the Form 1008 or attachment.

Applicants with credit scores of 620 or higher do not require additional compensating factors to be identified for debt ratio waiver requests; however, the underwriter will make the final determination. It is possible that a credit score is not indicative of an applicant’s true credit risk. It is the underwriters responsibility to evaluate credit, capacity, and collateral when considering any applicant for a debt ratio waiver.

The National Office supports and encourages granting ratio waiver requests to applicants with legitimate compensating factors such as those listed below; however the underwriter will make the final determination:

- FICO of 620 or higher for any applicants
- Minimal increase in housing expense (payment shock): Current rent is comparable to proposed PITI
- Conservative attitude toward the use of credit and ability to accumulate savings
- Previous credit history that the borrower has the ability to devote a greater portion of income to housing expense. Many low income or high cost area borrowers already pay a substantial amount for rent or housing.
- Employment history of 2 years or more in current position. If an applicant has a history of changing jobs the underwriter should consider if it was to better their financial situation. More important to consider is id they have always been gainfully employed (no gaps due to multiple terminations, etc.)
- Additional compensation or income received but not reflected in repayment income, yet this income has a direct effect on the ability to pay the mortgage, including food stamps, other similar public benefits, potential annual compensation or bonus payouts based on performance, or additional part time employment that lacks a stable history.
- Cash reserves available after closing
- Potential for increased earnings and career advancement, as indicated by job training or education in the borrower’s profession.

Rural Housing Credit Policy Manual

- Home is being purchased as the result of relocation of the primary wage-earner. The secondary wage-earner has an established history of employment, expects to return to work or is currently seeking employment, and there are reasonable prospects for securing employment in a similar occupation within the new area.

200.13 – Payment Shock

Analysis of early delinquency loans guaranteed under the SFHGLP has indicated that payment shock is a delinquency factor when other risk factors (risk layering) are present. The presence of payment shock is especially significant when the borrower's credit history contains derogatory information.

The term "payment shock" signifies the increase in housing expenses experienced by a borrower. Payment shock is defined as a percentage and calculated using the following example:

New PITI divided by Current housing expenses minus 1.00

New PITI = \$850

Current housing expense = \$550

850 divided by 550 = 1.54

Minus 1.00 = .54 (54%)

In cases where the borrower does not have prior experience in meeting rent or housing expense obligations (living rent free), payment shock cannot be measured as a percentage.

In cases where payment shock is 100% or higher or in cases where the applicant did not have previous rent or housing expenses, no additional risk layering (such as adverse credit waivers, debt ratio waivers, or temporary buy-downs) should be allowed without strong compensating factors such as those listed previously.

Existing lenders that exhibit high early delinquencies or high loan losses should be subjected to quality control reviews to ensure that agency underwriting standards are followed.

200.14 – Seller Concessions

Seller concessions are allowed to be utilized with Guaranteed financing to assist with closing costs, customary lender fees, eligible repairs, and for temporary or permanent interest rate buydowns.

Seller concessions are never authorized to pay collection accounts, credit card bills, or other items that are not directly associated with the purchase of the home. Buyers may not receive cash back at closing from seller concessions.

Unauthorized use of loan funds by lenders can jeopardize their approved lender status, loan note guarantee, and/or potential loss payment. Specific limitations on seller concessions are deferred to the secondary market source of the approved lender.

200.15 – Deferred Student Loans

Deferred student loans must be included in the debt ratio calculations for Guaranteed Loans regardless of the deferment period.

Rural Development RD Instruction 1980-D, section 1980.345(c)(1) states: "Long term obligations include those obligations...with a remaining repayment period of more than 6 months and other shorter term debts that are considered to have a significant impact on repayment ability."

If the credit report does not reflect a monthly payment due at the end of the deferment period, the lender may request a copy of the applicant's payment letter, or utilize the industry standard of estimating student loan payments as 1% of the loan balance.

Therefore a deferred student loan balance of \$12,000 should have a corresponding monthly payment of \$120 if no estimated payment is verified by the lender.

Rural Housing Credit Policy Manual

This guidance applies to all manually underwritten loan files and loans submitted through the Guaranteed Underwriting System (GUS).

200.16 – Gift Funds

Approved lenders utilizing GUS must ensure accurate data entry and documentation of gift funds associated with the loan. “Gifts Total,” “Gifts Not Deposited,” and “Earnest Money Cash Deposits” should be entered on the “Asset and Liabilities” page OR under “Other Credits” on the “Details of Transaction” page.

Do not enter these funds on both pages as this would result in a misrepresentation of assets. Lenders are responsible for documenting the true and accurate assets entered into GUS in the permanent loan case file.

200.17 – Quick Reference Chart

Underwriting topic	Who issues approval	Who documents compensating factors	Minimum credit score benefits
Debt Ratio Waivers	Lender with Rural Development concurrence prior to Conditional Commitment	Lender	620 and above: stand alone compensating factor
Payment Shock	Lender	Lender	620 and above: stand alone compensating factor for payment shock of 100% and above
Payment of collection accounts	Lender	Lender	Below 620: no comment required; underwriter documents decision

200.18 – GRH Refinancing Chart

	Existing GRH to New GRH - No cash out except for 0.5% guarantee fee	Existing GRH to New GRH - Cash out to pay actual closing costs and/or the 0.5% guarantee fee	Direct 502 to New GRH - Cash out to pay actual closing costs and/or the 0.5% guarantee fee
Maximum Loan Amount	0.5% over current principal balance	100.5% LTV	100.5% LTV
Amount of RD Guarantee Fee	0.5%	0.5%	0.5%
Income Compliance with RD Inst. 1980-D	Yes	Yes	Yes
RD/HUD Inspections	No	No	No
Repairs Required - (Repairs cannot be financed into loan)	N/A	If required by the appraiser to correct safety issues	If required by the appraiser to correct safety issues
RMCR or Tri-Merged Credit Report	Yes	Yes	Yes
Income Compliance & Verifications - (Full or Alt Doc)	Yes	Yes	Yes
Underwriter's Approval (with ratio waivers or credit waivers, as applicable)	Yes	Yes	Yes
Form RD 1980-21 and Form AD-1048	Yes	Yes	Yes
Fully Completed Form 1003 & 1008	Yes	Yes	Yes
Refinance of Other Debts - (RD or GRH loans only)	No	No	No
Interest Rate - (no FNMA or VA rate guidelines apply)	Must be less than the borrower's current rate	Must be less than the borrower's current rate	Must be less than the borrower's current rate
Loan Terms	30 years	30 years	30 years
Payoff Information	Borrower's current Lender	Borrower's current Lender	Borrower's current Center 800-414-1226

200.19 – Appraisal Requirements

The Lender will use an appraiser who is licensed to appraise in the area in which the property is located. The appraisal must be less than 6 months old.

Lenders will instruct their appraisers to use the following appraisal forms in relation to a SFH guaranteed loan:

- Uniform Residential Appraisal Report (FNMA Form 1004/FHLMC Form 70) for one unit single family dwellings,
- Manufactured Home Appraisal Report and addendum (FNMA Form 1004C/FHLMC Form 70B) or
- Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465) for all individual condominium units

The Cost Approach method needs to be done only in cases in which it is requested by the Lender, or considered by the appraiser to be a good indicator of value for the subject property. (As an example, the appraiser may believe that the cost approach is a good indicator of value if the dwelling is less than one year old or has been recently renovated.)

Manufactured Homes: It is State policy to have the appraisal on all Manufactured Homes reviewed by the Appraisal Staff in the SFH Division prior to the issuance of the Conditional Commitment.

RD Review: An administrative review of the appraisal will be done by RD prior to issuance of a Conditional Commitment

Existing Dwellings

Inspections (FHA appraiser or home inspector)

The dwelling must meet the current requirements of:

HUD Handbook 4905.1 (*Requirements for Existing Housing-One to Four Family Living Units*). Only the repairs required to bring the property up to HUD handbook 4905.1 requirements are allowed to be escrowed.

Appraiser

Lenders have the option to choose either:

- An appraisal performed by an FHA roster appraiser; or
- An appraisal performed by a licensed and certified appraiser not on the FHA roster and a home inspection by a qualified home inspector

Even if the appraiser is on the FHA roster, homebuyers may elect to obtain an independent home inspection to assist them in their home purchase decision. In all cases, the appraiser must inspect the interior and exterior of the subject property, and an exterior inspection should be performed for all comparable sales

Regardless of whether the appraisal is completed by an appraiser on the FHA roster or by a licensed and certified appraiser not on the FHA roster, the lender must obtain documentation for an existing dwelling showing that the following requirements have been met:

- The existing dwelling meets the thermal standards per RD Instruction 1980-D
- If the property is served by an individual water supply system, the local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards
- If the property is served by an individual septic system, the septic system must be free of observable evidence of system failure. A FHA roster appraiser, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic system evaluation. The separation distances between a well and septic tank, the drain field, and the property line should comply with HUD guidelines or state well codes.
- Or any property in which the lender of FHA roster appraiser is in doubt about the operation of septic systems for the dwelling or in the neighborhood (e.g., if the property is vacant), the local health authority or a septic system professional has determined the viability of the system.
- Any repairs necessary for the dwelling to be structurally sound, functionally adequate, and in good repair must have been completed prior to requesting the Loan Note guarantee, or the escrow account requirements of RD instruction 1980-D, section 1980-315 have been met.

- If required by the lender, appraiser, inspector, or state law, a pest inspection has been obtained showing that the property is free of active termite infestation.

A property which an FHA roster appraiser indicates is in average or good condition may generally be considered in good repair, though repairs may still be required by the lender. Regardless of whether the appraisal is performed by an FHA roster appraiser or not, the appraiser must report all readily observable property deficiencies as well as any adverse conditions discovered performing the research involved in completing an appraisal. When lending to low and moderate-income borrowers under the SFHGLP, lenders are expected to use professional judgment and rely upon prudent underwriting practices in determining when a property condition requires additional inspections or repairs. Conditions that would warrant additional repairs include those that pose a threat to the safety of the occupants, jeopardizes the soundness and structural integrity of the property; or adversely affect the likelihood of a low to moderate-income borrower from becoming a successful homeowner.

The Safe Drinking Water Act does not protect private wells. The rules of the EPA only apply to “public drinking water systems” government or privately run companies supplying water to 25 people or 15 service connections. Most states regulate private household wells, and most health departments, environmental offices, and county governments should have a list of state certified testing laboratories.

Also, EPA’s Safe Drinking Water Hotline (800) 426-4791, can help in many ways. The hotline can:

- Provide the name and phone number of your state’s laboratory certification officer
- Provide the phone number of your state drinking water program
- Provide a listing of contaminants public water systems must test for
- Provide health advisories prepared for specific drinking water contaminants
- Explain the federal regulations that apply to public water systems
- Compare individual water supply lab results to the federal standards. These standards can be found at www.epa.gov/safewater/mcl.html

Appraisal Expiration Dates

The appraisal has a term of six months for existing construction and 12 months for proposed construction. The term of the appraisal begins on the day the home is inspected by the FHA appraiser and this date appears on the URAR.

Home inspector

When FHA appraisals are not accessible or available, a home inspection report completed by an inspector deemed qualified by the lender will satisfy the existing home inspection requirement for the GRH program.

When required, Lenders are expected to obtain the home inspection report prior to an appraisal to determine the suitability of the dwelling for the program and what repairs will be required. A copy of the inspection will be provided to the loan applicant.

Repairs

The Agency requires only those repairs necessary to ensure that the dwelling is structurally sound, functionally adequate, and in good repair. Repair of minor items on the home inspection report can be negotiated between the buyer and seller. Rural Development does not make the decision on required repairs. Repairs required by an FHA appraiser are mandatory.

New Construction

Agency regulations recognize the trust the Agency places in approved lenders. Program regulations do not require the lender to submit documentation maintained in the lender’s file regarding new construction, such as:

- Copies of plans, drawings and specifications (optional by Lender)
- Certifications regarding the plans, drawings and specifications. Although lenders may voluntarily elect to use Form RD 1924-25, *Plan Certification*, this form is not a required form for the guaranteed program. The

certification may be on the plans and drawings, a separate form, or on any document that conveys the necessary information.

- Building permits
- Copies of new construction inspections
- Occupancy Certificates
- Copies of construction warranties

However, the Agency has the option to request this information in appropriate situations such as when:

- The Agency is performing a processing review for a new Lender
- The Agency is performing a periodic review of the Lender's compliance with program regulations
- The Agency believes that the Lender is not fulfilling the obligations of the Lender Agreement and/or program regulations
- The Agency is reviewing a loss claim

The two following charts were developed to guide Agency staff regarding:

- Building drawings, plans and specifications and the related documentation requirements.
- New construction inspections and the related documentation requirements.

New Construction Building Plans, Specifications, and Inspections

Certified Plans and Specifications RD Instruction 1980.340(b)(1)

The Lender's file must contain evidence that the plans and specifications comply with all applicable development standards* applicable to the new construction. Acceptable evidence includes:

- Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 "Plan Certification" is an acceptable format, but may not be required by the Agency for guaranteed loans.
- Certificate of Occupancy issued by a local jurisdiction**
- Building Permit (or equivalent) issued by local jurisdiction.**

The lender may accept certifications only from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications.

Plan certifiers may be any of the following:

- Licensed architects,
- Professional engineers,
- Plan reviewers certified by a national model code organization,
- Local building officials authorized to review and approve building plans and specifications, or
- National codes organizations.

* Applicable development standards The current edition of any of the model building, plumbing, mechanical, and electrical codes listed in exhibit E of RD Instruction 1924-A are applicable to single family residential construction, or other similar codes adopted by the Agency for use in the State.

** If this method is used, the State Director must determine whether local communities or jurisdictions qualify to use this form of "acceptable evidence" under RD Instruction 1924-A, Section 1924.5(f)(1)(iii)(C)(2).

Evidence of construction inspections. RD Instruction 1980.341(b)(2)

The Lender's file must contain copies of the documents described in one of the following three options:

Rural Housing Credit Policy Manual

- Certificate of Occupancy issued by a local jurisdiction that performs at least 3 construction phase inspections, including those prescribed in RD Instruction 1980-D § 1980.341(b)(2) and a 1-year builder warranty plan acceptable to Rural Development, or;
- Three construction inspections performed when:
 - Footings and foundation are ready to be poured and prior to back-filling.
 - Shell is complete, but plumbing, electrical and mechanical work is still exposed.
 - Final inspection of completed work prior to occupancy.
 - A 1-year insured builder warranty plan acceptable to Rural Development, or;
- Final inspection and a 10-year insured builder warranty plan acceptable to Rural Development.

200.20 – Flood Insurance

For borrowers required to use escrow accounts for the payment of real estate taxes and insurance, the flood insurance premium will be paid when due from funds contained in the escrow account. If the escrow account contains insufficient funds to pay the flood insurance premium when due, the County Supervisor will request the borrower to pay an amount equal to the difference between the premium due and the escrow balance in a lump sum within 30 days after notification. If the borrower fails to remit the amount requested, the amount will be advanced and charged to the borrower's account as a recoverable cost. The amortization period for an advance due to an escrow shortage will be one year. Amortization of the charge will be handled in accordance with 7 CFR part 3550. When a borrower has more than one loan secured by the real estate on which the flood insurance premium is being paid, the advance will be charged to the initial or lowest numbered loan.

200.21 – Condominium Guidelines

All condominiums, unless already FHA approved, must be approved by the lender's Condo Approval Department.

FHA Approved Projects

Evidence that the project has been approved by the FHA <https://entp.hud.gov/idapp/html/condlook.cfm>

Condominium Projects

PRESALE REQUIREMENTS

- For purpose of calculating the presale requirements, multiple purchases of units in a project by one owner are counted as one sale.

INELIGIBLE PROJECTS

- A project comprised of Manufactured Housing units is only eligible when the project has been approved through a reciprocal review (see Reciprocal Project Review section)
- Project subject to the rules and regulations of the U.S. Securities and Exchange Commission; Condominium Hotel; Project in which an owner may hold a single deed evidencing ownership of more than one unit; Project in which more than 20% of the total square footage is used for non-residential purposes; Project in which more than 20% of its income is from sources other than association dues and assessments; Common-Interest apartments (e.g., cooperatives); Project with fragmented or segmented ownership (e.g., timeshare units); Houseboat project; Attached project that is a legal nonconforming use; Project in litigation, arbitration, mediation, or other dispute when the dispute is focused on the safety, structural soundness or habitability of the project.

Project Warranties

The Condominium Project must meet all applicable warranties as outlined in Chapter 42 of the FHLMC Selling Guide.

Project Approval

Streamline Condominium Project Approvals are currently not accepted

The following documentation must be submitted to condoapprovals@taylorbean.com or sent via facsimile transmission to 1-866-257-4028:

- Condominium Constituent Documents (i.e., Declaration of Condominium, Homeowners' Association Articles of Incorporation, By-laws, etc).
- Any amendments to the Condominium Constituent Documents
- Any written agreement between the Homeowners' Association and other parties (e.g. Professional Management Agreement, etc.)
- The constituent documents of any Master Association and any amendments
- Leasehold Estate documents, if applicable
- Evidence of Insurance
- Homeowners' Association Budget
- Sample Appraisal if Unit is in a New Project
- Appraisal of Subject Property if in an Established Project
- If Project has been converted within the last 3 years, appraisal of subject unit and a copy of the architect/engineer report obtained upon completion of the conversion
- If relying upon Reciprocal Review issued by FNMA, evidence of such approval
- If relying upon Reciprocal Review issued by FHA, evidence of such approval
- Fully completed Condo Questionnaire, executed by the Homeowners' Association or Developer, as appropriate, AND by the Originator of the Loan.

Established Condominium Project

DEFINITION

It is an Established Condominium Project if it is not an ineligible project and it meets ALL of the following requirements:

- All units and common elements are complete and not subject to any additional phasing or additions; AND
- At least 90% of the total units have been conveyed to purchasers other than the developer; AND
- The unit owners control the homeowners association; AND
- No more than 15% of the homeowners' association dues or assessments are delinquent more than one month; AND
- Any right of first refusal will not adversely affect the rights of a mortgagee; AND
- No single entity or individual owns more than 10% of the total number of units in the condominium project; AND
- The condominium project is not comprised of any manufactured housing units; AND
- All project warranties are met
- A Condominium Letter from the homeowners association AND the originator of the loan must be provided and reviewed to make certain it meets the requirements of an Established Condominium Project. Appraiser's review is not acceptable documentation.

OWNER OCCUPANCY REQUIREMENTS

- If used as a primary residence or second home: no owner occupancy requirement.
- If used as an investment property: at least 51% of the total number of units must have been conveyed to purchasers other than the developer who occupy their units as a primary residence or second home

New Condominium Project

DEFINITION

It is a New Condominium Project if it is not an ineligible project and it meets the following requirements:

- All units and common elements are not fully completed, or are subject to additional phasing or annexation; OR
- Fewer than 90% of the total number of units in the project have been conveyed to purchasers other than the developer; OR
- The developer has not turned control of the homeowners association over to the unit owners; AND
- No more than 15% of the homeowners' association dues or assessments are delinquent more than one month; AND
- Any right of first refusal will not adversely affect the rights of a mortgagee; AND

- No single entity or individual owns more than 10% of the total number of units in the condominium project; AND
- The project is not comprised of any manufactured housing units; AND
- All established project warranties are met; AND
- All new project warranties are met

OWNER OCCUPANCY REQUIREMENTS

- At least 51% of the TOTAL NUMBER OF UNITS IN THE PROJECT have been conveyed or are under contract to purchasers other than the developer who occupy or who will occupy their units as primary residences or second homes; OR
- At least 51% of the TOTAL NUMBER OF UNITS IN THE SUBJECT LEGAL PHASE, PLUS at least 51% of the SUM OF THE TOTAL NUMBER OF UNITS IN THE SUBJECT LEGAL PHASE AND the TOTAL NUMBER OF UNITS IN ALL PRIOR LEGAL PHASES in which units have been offered for sale, have been conveyed or are under contract to purchasers other than the developer who occupy or who will occupy their units as primary residences or second homes

COMPLETION REQUIREMENTS

- The subject legal phase and any prior legal phases in which units have been offered for sale are substantially complete. A Certificate of Occupancy, or its equivalent, for both the legal phase and the building in which the subject unit is located, will suffice.

Detached Condominium Project

- Must meet all of the requirements of either an Established Condominium Project or a New Condominium Project or a 2-4 Unit Condominium Project
- A detached unit that is a legal nonconforming project is eligible even if legislation or local zoning does not permit the current improvements to be rebuilt to the current density in the event of partial or full destruction
- There are no presale requirements or completion of common elements requirement

2-4 Unit Condominium Project

- Must meet all of the requirements of an Established Condominium Project (except for single-investor concentration); AND
- All but one unit in the project have been conveyed to purchasers, other than the developer, who occupy their units as a primary residence or second home; AND
- No single entity owns more than one unit in the project

200.22 – Escrows

Escrows for New Construction

Escrows are permitted on new construction for completion of a single family, owner occupied detached dwelling on a case by case basis:

- Escrows are not required to be weather-related.
- The cost to complete the minor improvements that do not affect the livability or safety of the residence may not exceed \$2500.
- All improvements must be completed within 15 days from closing.
- Funds placed in escrow for minor improvements will not be less than 150% of contracted improvements.

Escrows for Repairs or Improvements on Existing Construction

Requirements for establishing a repair escrow are:

- Only repairs required to bring the property up to FHA MPS are allowed.
- The safety and soundness of the dwelling and ability to inhabit the dwelling cannot be adversely affected by the incomplete items.

Rural Housing Credit Policy Manual

- Copies of bids or contracts must be provided to establish the amount of funds to escrow.
- Funds equal to 150% of the cost to complete the repairs or improvements must be withheld by the escrow agent and an escrow account established.
- All improvements must be completed the specified time frame and a final inspection (evidencing completion of all escrow items) must be performed by the original appraiser prior to disbursement of the escrow funds.

Escrows are permitted for minor repairs on existing construction, such as paint, roof repair or replacement or installation of new carpeting or due to weather or winter related delays, under the following circumstances:

- The repairs must be a requirement of the appraisal or included in the terms of the sales contract.
- The cost to complete the minor improvements that do not affect the livability or safety of the residence may not exceed \$2500.
- Escrow funds must be 1-1/2 times (150%) the estimated or contracted cost of the repairs.
- All repairs must be completed within 15 days from closing on normal repairs.
- All repairs, delayed due to winter or other weather related issues, must be completed within 15 days from closing. Extensions beyond these terms must be approved by the Credit Policy Department. In no event will the completion date be allowed to exceed 30 days from closing.
- Escrows are not permitted on refinances.